# Global, European and national challenges in the enlarged European Union

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The enlarged and further enlarging EU faces challenges on three levels: global, European and national. The paper looks at these challenges in general, and from the point of view of the new member countries, in particular. It identifies some of the basic policy dilemmas of the new members with substantial impact on the future of the European integration as a whole. They include the policy mix in order to sustain the already started catching-up process to more developed EU members, the mixture of competitiveness and social welfare, answers to an increasingly two-way process of industrial relocation and the right timing of membership in the EMU. The last part of the paper deals with key future requirements of a successful EU, such as vision, leadership and new social mentality.

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## 1. CHALLENGES AHEAD ON THREE LEVELS

The European integration entered the 21st century with crucial question-marks on three levels: global, European and national (member state-related). Some of the key global challenges will be described in the next part. Here, one overall consideration has to be formulated. It is a widely shared view that a united and more cohesive Europe is the only adequate answer to face the competition of long-standing and emerging economic giants in other parts of the world (United States, China, India). The enlargement can contribute to this objective in two ways. First, in a positive form, by concentrating European resources in order to enhance the continent's competitive capacity in terms of market size and, more importantly, in focusing on human resource; second, in a preventive form, by avoiding substantive social tensions resulting from huge differences in economic performance, living standards and income levels. Enhancing competitiveness and narrowing income gaps, both across member countries and among regions of the individual countries, are two and inseparable sides of a success-promising strategy.

On the level of Community policies, a number of large-scale reforms are urgent and more than timely. They include the future function of institutions, the acceleration of the decision making process, the reshaping of the common agricultural policy, the full and unrestricted implementation of the internal market in all economic areas, the future- and target-oriented designing of the budget, more integration in the area of justice and home affairs and, last but not least, the structuring of a common foreign and security policy. However, some remarks for the successful functioning of the EU have to be made from the point of view of the new member countries. All of them entered an EU that is characterized by enhanced competitiveness, future-oriented strategy and solidarity. These expectations were so self-evident that they did not appear in the public debate on the referendum on accession at all. It is obvious that all new members keep on being fundamentally interested not in membership in general but in successful membership. Success can be defined as a combined package of several components. In this context, five important areas can be identified.

First, new members would be full members of the EU in every field of community level activities, even if transitional measures apply. They are interested in shortening this period in the free circulation of labour (transition periods, according to the current rules, can be maintained until 2011), in becoming equal-footing partners in the direct payment system of the CAP, and being the real external border of the enlarged Union by shifting the administrative Schengen border to their non-EU borders and enjoying free movement across intra- EU national borders There is, however, a more controversial area, namely the timing of joining the Economic and Monetary Union, since it has to consider the fulfillment of the Maastricht criteria on the one hand, but also the creation of sustainable growth and competitive economic structures in the new member countries, on the other.

Second, for the largest part of the societies, successful membership is reflected in a quick and widely felt catching-up process in economic performance of the new member country and in income levels of its citizens. Fortunately, this process has started well before membership and is expected to keep momentum after accession as well, as a result of the positive impacts of membership, such as larger markets, further inflow of international capital, and, particularly, much larger EU funds for economic and social development.

Third, one of the key elements, unfortunately many times ignored or underestimated, is the extent to which representatives of the new member countries can successfully be involved in the everyday work and the decision-making process of the European integration. This involvement includes not only the portfolio of commissioners, but, more importantly, the recruitment of experts from the new members to different, partly leading, positions in the normal activities of the Commission, their role in the European Parliament and also in a large number of lobby organizations both in Brussels and across Europe.

Fourth, representatives of the new member countries have good chances to increase their influence in different areas of shaping Europe's future. On the one hand, they can show the European public opinion that they did not enter just in order to get short-term and financial benefits from the integration, but they are responsible players interested in the future of the continent. On the other hand, new members have less (or any) vested interests generated during decades of the development of the integration.

Finally, the national challenges have to be addressed. One critical element of the current and future development of the EU is the slow growth in its key member countries, such as Germany, France or Italy. Sluggish growth can be explained by the several times postponed but more and more urgent domestic reforms not only in economic areas, such as budget, labour market, taxation, etc., but, to a large extent, also in the minds of the people. Concerning the new member states, their transformation record can really be considered as unique and mostly successful. However, the final assessment is still missing, since the time span of transformation in selected areas is still too short. In addition, the sustainability of the positive developments as well as successful adjustment to EU structures, needs, at least in some countries, further evidence. There is no doubt that preparation for and accession to the EU have substantially consolidated the transformation process and also shortened the time of adjustment. The positive results of EU policies are obvious. Nevertheless, setbacks (or even backlashes) cannot be fully ruled out. They may originate from two different, although interrelated sources. First, in each country and society, the transformation takes place on different levels of activities. Macroeconomic stabilization is definitely „easy", as far as its technical instruments are concerned. However, the real question is twofold: what are the social costs – and mostly longer term consequences – of stabilization, and, whether the imminent results of stabilization are sustainable. Microeconomic transformation definitely requires more time, since successful firms do not start to exist at the wish of policymakers. Much longer lasts social transformation, while mental transformation may need a change of generation. In addition, as a result of the breaking up of the old post-war system in Europe, a number of new nation-states emerged.

Beyond the above mentioned considerations related to the new member countries, success or failure also depends on the role the EU is able and ready to play in the global environment. On the one hand, it has to enhance Europe's influence in the world and strengthen the position of the integration, in general, and that of the member countries, in particular, on the international marketplace. In other words, it has to support the political, economic and social incorporation of the member countries into the global process of development. On the other hand, and in some cases probably not less importantly, member countries expect that the integration will be able to protect them against unpleasant, risky, or just plainly negative external impacts, be they connected with globalization or the adverse consequences of regional conflicts. The fortunate but by far not easy mixture of these two factors, obviously changing proportions over time and due to the quality and potential impact of external developments, is essential for successful membership.

Nevertheless, at this point, one key observation has to be added. The European integration has to remain fundamentally an open system. Not only its chances of enhanced global influence but also its survival in the 21st century are crucially rooted in openness, And not only in the old-fashioned economic or political term, but also in openness covering social structures and individual attitudes of the citizens of the EU. Temporary protection may not be ruled out against unforeseen and sudden adverse developments or in case of fostering global influence by well-targeted internal preparation. However, the global approach has to keep on dominating the strategy-making and policy implementation of the enlarged and enlarging European Union.

## 2. REMARKS ON GLOBAL CHALLENGES

First, there is no alternative to globalization. Therefore, the basic question is not whether globalization is good or bad, but how can the EU and its member countries find the correct answer to the challenges of globalization. How can benefits be used and risks be reduced in order to get a positive-sum game for Europe in the process of globalization.

Second, strategic approaches have to take into account that globalization is a horizontal and a vertical process simultaneously. Horizontally, it means the overcoming of geographic distance and more emphasis on regional cooperation (being the enlarging EU its most outstanding example). Vertically, it creates new and deep forms of interdependence on the entire scale of international business activities. On the one hand, it integrates the key production factors, particularly physical and human capital with labour around the world. On the other hand, different activities of the same business become highly intertwined, such as production, service, research and development, financing and accounting, education and training, sale strategy and marketing, long-term planning, etc.

Third, brief mention has to be made on the key driving forces of globalization, more than sufficiently mentioned in various studies. They include the unprecedented speed of information and communication technologies, the worldwide activities of transnational companies, and the globalization of capital markets. Simultaneously, individual countries have also contributed to this process by pursuing more liberal policies towards international capital. In addition, and despite some doubts or resistance, more liberal economic policies became the rule in the last decade, first of all among the transforming European countries and in several emerging or less developed economies.

Fourth, liberalization of global economic relations continues to be contradictory, or at least, not simultaneously spreading to all major factor markets. Despite hot disputes, mainly in the framework of the WTO trade liberalization made huge progress in the last two decades, even if obstacles did not disappear completely. Also, international trade became less restricted. Unfortunately, it is just some old member countries of the EU that try to limit the free circulation of services upon enlargement. Obviously, capital movements enjoy the most liberal treatment, since they do not face any major barrier. Just the opposite, there is a global competition for „free” capital looking for the best places for short- or longer-term investments. In sharp contrast to the above areas, free circulation of labour is highly restricted all over the world. In fact, labour would never get the degree of liberalization characteristic of trade, services or capital.

Fifth, globalization requires the worldwide speeding up of the decision making process. While more and more important factors have to be taken into account before taking a decision, the time available for this process has to be substantially reduced.

Sixth, we have to be aware of the changing nature of competitiveness. Traditionally, competitiveness used to be based on prices, quality and delivery terms. However, in the 21st century, the above factors seem to be insufficient to generate sustainable competitiveness either on the national or on the company levels.

Seventh, the human factor became the key component of sustainable development not only in the developed countries but also in the emerging and less developed world as well. Strategies both on the level of European integration and on nation-states, the training and the best utilization of human resources has to be considered not only a key element of global influence, international competitiveness, but also an indispensable factor of successful integration.

## 3. SOME DILEMMAS OF THE NEW MEMBERS

In spite of the critical situation of the integration in selected areas, the first 20 months of membership can be described as a success story. Certainly, membership did not create a spectacular and imminent change to the better in the new members, neither caused it a catastrophe for the old ones. If some countries happened to experience special problems, they cannot be attributed to enlargement but, much more, to domestic policy failures. Notwithstanding the generally successful transformation and accommodation to the EU, the new member countries have to solve a number of problems from within the integration. In this respect, membership may have a twofold effect, by offering better framework for facing challenges and, at the same time, forcing the new members to undertake further reforms.

One crucial issue is how to secure the sustainability of high growth and of the catching-up process. In fact, high growth rates in the last years and also in medium-term perspective, are an encouraging trend. However, growth is not everywhere rooted in export- and investment-driven policies. Particularly in small countries (practically all new members excepting Poland), sustainable development can hardly be based on expanding domestic consumption. This pattern has characterized in the last years some of the new members, and is a major feature of Bulgaria and Romania expected to enter the EU in 2007. Moreover, sustainability has to be combined with the obligation to become member of the monetary union and, as a precondition, develop and implement a convergence plan before being adopted as a candidate.

Membership in a monetary union has important implications for domestic economic policies. In the euro area monetary and exchange rate policies are no longer available to correct for country-specific imbalances and monetary authorities are primarily responsible for area-wide price stability. This is the key channel via which monetary policy contributes to long-run growth. Other conditions which are equally necessary to ensure high and sustainable long-term growth and prosperity lie beyond the purview of monetary policy. They depend on sound fiscal policy and comprehensive structural reforms. These policies, in my opinion, are among the most powerful policy tools for addressing and preventing problems that may arise within a currency area.

The need for structural reforms and sound fiscal policies – two mutually reinforcing strategies – is not limited to members of a monetary union, but it applies to all countries. Flexible markets are a universal need in an open, science- and technology-driven, highly competitive and rapidly changing global economic environment. This also implies that the general call for structural reforms and sound fiscal policy is required in the euro area countries as well as the new Member States. However, in the latter case, consistent and stability-oriented domestic economic policies are essential not only for successful monetary integration but also for taking full advantage of the benefits of EU membership and for the catching-up process in per-capita income levels.

The Maastricht criteria have been developed for mature, developed market economies, that have implemented fundamental investments into physical infrastructure, environment and public administration before starting to prepare for the monetary union. In turn, the new member countries have a sizeable deficit in the above-mentioned areas and should eliminate these shortcomings in the process of converging with the criteria of the monetary union. It is not surprising that some of them (not because they are large, but because they were longstanding nation states with external debt and budget deficit from the very first moment of transformation) are rather cautious in defining the year of membership in the EMU.

They have to create a delicate balance between gradual convergence on the one hand, and sustainable growth, structural change, increased competitiveness and lower levels of unemployment, on the other. Thus, their budget deficit, in the medium term, may remain higher than 3 per cent of the GDP, as determined in the Maastricht criteria, while other criteria seem to be fulfilled easier. One has to mention that Spain, Portugal, Greece were also struggling with high budget deficit in the first years of preparing for the EMU. In addition, some „EMU-mature" countries (particularly the Baltics) may produce unpleasant surprises, since their structural changes are far from finished and the future price of Russian energy imports can easily skyrocket domestic inflation.

Another challenge is connected with the geographic orientation of trade relations of the new members. Evidently, they have benefited from free trade with the EU years before membership as well as following accession. Particular dynamism can be observed in the trade among the new members, as well as the growing share of trade in services with the „old" members. Also, small- and medium-sized companies started to discover the „new" markets. At present, all new members belong to those countries that have the highest export concentration on the EU. Part of the exports by some of the new members that are highly integrated into the global production network of multinational companies, does not have its final destination in the importing country, but becomes an integral part of the exports of another EU member both within and outside the geographic boundaries of the integration. Therefore, the correlation between the business climate in the main trading partners and growth prospects of the exporting new member are somewhat less relevant than it used to be a decade ago and as some experts still believe.

In their sustainable catching up process, new member countries need a large amount of capital, both in the form of direct investments and EU resources from the common budget. However, some new members, maybe too early, have become remarkable capital exporters in the last years.. Globalization, new investment opportunities in the neighbouring countries, mainly linked to privatization deals, former close business contacts, as well as the more developed microeconomic environment and mentality (mainly in Hungary) have fuelled this development.

Nevertheless, the challenge of relocation of selected activities has reached not only the more developed and „old" members but some of the new ones as well. Even more, EU future members and candidates nourish high expectations that they may become the location of large part of international capital either directly or through the new members. Such hopes are founded by arguments of higher costs, both derived from EU membership (environment, safety, consumer protection, more costly institutions and controls) and from rapidly rising wages (not only in terms of national currency but, even more, as expressed in euro). However, it is by far not evident that the new member countries would stop to remain favorite locations for European and other companies. To be sure, some labour-intensive activities have already left Central Europe several years ago. Others may look for larger markets outside Europe. In turn, technology-intensive industries and services are unlikely to leave well-established Central European locations. Confidence in the business, reliability of the legal, economic and institutional framework, geographic proximity, better infrastructure, higher level of human resources and, last but not least, the already established subcontracting network seem to provide sufficient arguments for not moving to new and prospective members of Southeastern Europe, or only relocating parts of their activities and replace them by upgraded activities in Central European countries.

One of the biggest challenges can be identified in the labour market. Regarding labour markets, a major challenge for structural reforms is to find the right balance between social considerations and individual incentives that maximise economic welfare. Areas of particular interest are the social transfer systems, employment protection laws and the wage setting mechanisms, including wage indexation. Equally important are policies supporting the creation of new businesses and housing policies that do not hinder labour mobility, e.g.

through rent subsidies or high transaction costs. From the monetary policy point of view it is also important that labour market reforms facilitate wage adjustments that reflect more closely regional and sectoral productivity differences.

Although labour markets in the EU are very heterogeneous many old and new Member States face severe problems. In many countries employment rates are low by international standards and in some cases even falling. There has been some progress with labour market reform over the past decade, however, labour market flexibility needs to be enhanced further, especially in view of the large number of people who are wastefully underemployed or unemployed in Europe, resulting in individual difficulties and welfare losses to society. A main focus should be put on the groups that face particular challenges when trying to enter the labour market, such as women, the youngest and oldest age groups and the lowest educated. In the new Member States there is a particular need to address skill mismatches, the limited domestic labour mobility, and to constantly upgrade human capital. Throughout the enlarged European Union the labour market performance can be considerably improved, what calls for an immediate action that must reflect the characteristics of national labour markets.

The official unemployment rate is rather different from country to country (from less than 7 per cent in Hungary to almost 20 per cent in Poland), and the activity rate of the population is lower than in the old EU members. It seems to be very difficult to bring back people to the (primary) labour market after several years of staying outside and having developed specific attitudes to work (from one-person firms through subsistence farming to large-scale tax evasion). Moreover, similar to the old EU members, most new members (excepting Poland) face the challenge of rapidly ageing population, low birth rates and deteriorating proportions between working (and tax-paying) and not-working (benefit-using) citizens. No wonder that some countries in general, and some sectors in several countries in particular, started to struggle with labour shortage and look for workers coming from other countries. Although the migration to Central Europe did not reach the volume experienced in many old member countries, it did appear and has its first impact not only on the labour market but in social relations as well. In sum, the new members have started to recognize the two-way flow of labour. While part of their population is working or would like to work in more developed EU countries, they started to host relatively large groups of workers from their (poorer) Eastern and Southern neighbors.

The transitional measures aimed at protecting the national labour market in several old EU members against the supposed or feared massive inflow of workers coming from the new member countries have several disputable consequences.

First, they support the decision of Western European firms to relocate production and service activities to the new members. If labour is restricted to come to the capital, in our globalizing economy, capital will be flowing to the labour. This is a healthier pattern of sustainable modernization than exporting generally well-trained, young and flexible labour from the less developed to the more developed countries. At the same time, this is the way how the new members may get substantially higher amounts of capital and technology than in case of exporting workers.

Second, transitional measures have controversial impact on Europe’s global competitiveness. On the one hand, the chances of utilizing cheaper, but in all aspects more flexible, labour in order to enhance competitiveness cannot be realized. On the other hand, this labour increases competitiveness in cooperation with European (and other) capital in the activities developed in the new member countries.

Third, differences in international competitiveness among the old EU members may be rising over time, since transitional measures are differently used (or not used, at all). In principle, member countries that have liberalized their labour market from the very beginning of enlargement or just earlier than others, may register competitive advantages (of course, provided that all other factors of competitiveness remain unchanged).

## 4. KEY QUESTIONS OF FUTURE POLICY-MAKING IN THE ENLARGED/ENLARGING INTEGRATION

With the end of the Cold War, the European Union has sought to extend the political and economic benefits of membership to central and eastern Europe. Ten states — Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia — joined the EU on May 1, 2004. Publicly, most EU officials are enthusiastic about enlargement. They view it as solidifying a Europe "whole and free," claim it will further open markets in the east, and hope that ongoing growth in eastern Europe will help jumpstart economic growth in the west. Others note that the enlarged EU still faces several challenges as it seeks to integrate the 10 new members, whose combined economic weight remains relatively small. Many new members need to complete reforms in areas ranging from food safety to public administration. Enlargement will necessitate a redirection of structural funds for development projects within the EU from older members, such as Spain and Italy, to newer and more needy countries like Poland. It will also be several years before most new EU members are deemed ready to join the EU's open borders system or the EU's single currency, the euro. Bulgaria and Romania concluded accession negotiations in December 2004 and hope to be able to join the EU in 2007; some caution, however, that their accession could be delayed for one year if they fail to implement remaining reforms. Also in December 2004, the EU announced it would begin accession talks with Turkey in October 2005, provided that Turkey continues to make progress on democratic and human rights reforms and extends its customs union to the EU's 10 new members, including Cyprus. After some contentious debate among member states, accession negotiations with Turkey began on October 3, 2005. They are expected to take at least a decade to complete. The EU asserts that the "shared objective of the negotiations is accession" but has cautioned that it is an "open-ended process, the outcome of which cannot be guaranteed." Some observers suggest that the difficulties with ratifying the EU constitution may cause the negotiations with Turkey to take even longer than initially predicted, and that they may be less likely to result in full membership. All of the western Balkan states also harbor EU aspirations in the longer term. In June 2004, the EU named Croatia as another candidate and opened accession talks on October 3, 2005, following a determination that Croatia was fully cooperating with the International Criminal Tribunal for the former Yugoslavia. Macedonia was named by the EU as a candidate country in December 2005.

In the past one and a half decade, Europe's answer to global challenges and the breakup of the old divided system of the continent was twofold: deepening in some fields and unprecedented widening. At first glance, both were necessary steps into the right direction, but not without serious shortcomings with backlash capacity for the future. Deepening, mainly represented by the monetary union, the common currency and the development of the internal market, remained fragmented, insufficiently prepared (common currency without more coordination of national budgets and economic policies) or sluggish (internal market). Similarly, as a consequence of missing strategic view and political courage, widening did not follow a gradual strategy that more or less would have resulted in the same new map of integration by 2005, but with less problems, unjustified social attitudes and smooth and more efficient functioning of everyday policies. It is increasingly obvious that the construction of Europe needs a new vision, clear leadership establishing a new structure of integration and a new mentality. Nevertheless, looking more in detail to current and future developments, new threats are developing on the horizon. Evidently, they do not appear in the old-fashioned form of organized military danger, but they may be not less dangerous for Europe's future. Beyond terrorist actions, they include global competition, migration and demographic changes and environmental problems.

Without a clear and newly structured leadership no adequate answer can be given to the above issues. The old French-German tandem that used to play a pivotal role in the integration process over decades, remains important but by far not unique and predominant. On the one hand, the accumulated reform pressure in both countries and the growing social resistance against bold but inevitable reforms has already led to slow growth, survival of outdated industries and other activities. On the other hand, the new geography of Europe with a large (and growing) number of Central, Eastern and Southeastern new and would-be members has already shifted the geographic, but increasingly also the economic and political balance of the continent towards its center represented by Germany. Moreover, the fact that almost all new members are small or (in new terms some of them medium-sized) countries, requires the rethinking and reshaping of the current organizational pattern of integration based on partly federal (supranational) elements, but mainly and in key questions on intergovernmental consultations and decisions.

## 5. WHAT ABOUT THE NEW MEMBERS IN THIS CONTEXT?

**First**: the biggest challenge for them remains sustainable growth and growing competitiveness in the framework of the enlarged Union. This task implies at least three basic questions.

(a) How should competitiveness be related to social (welfare) models?
(b) What is the role of the State in the development strategy of the individual countries?
(c) What is the right sequencing in the convergence process towards the monetary union?

Obviously, Europe has different social patterns than the United States, Japan or the emerging countries of Asia. However, there is no uniform „European model", since the British is different from the continental pattern (the so-called Rheinland-model), and the Mediterranean model substantially differs from the Scandinavian one. Moreover, the new member countries have had already to restructure large part of their previous social models built on a different economic system but impossible to be financed in the future. Each country is still in the process of creating the new social pattern and there is no „one size fits all" design available. The only common consideration is that a sustainable balance has to be found between competitiveness and social cohesion, being the latter an important element of sustainable growth and competitiveness. Also, it has to be taken into account that the social models of the
old members of the EU are also constantly changing and looking for the best (or just viable) solutions. The discussion about the future role of the State became largely ideologized in the last one and a half decades. It is understandable that the idea of dramatic withdrawal of the State from economic activities got a large number of supporters after the long experience with (different types of) socialism. Nevertheless, successful modernization in less developed (emerging) economies requires a supportive State and a high-quality public administration. The fundamental question is not whether we want more or less State, but what should be the basic character of the role of the State.

Therefore, the real issue is not so much the level (share) but the targets of financing from the State budget. Definitely, successful modernization needs a clear reorientation of the

State’s tasks from income redistribution to income generation, directly (through research, development, education and guaranteeing the critical mass of social cohesion) and indirectly (efficient administration, clear rules of the game, physical infrastructure, etc.) alike. The dilemma of competitiveness and convergence has already been shortly dealt with at an earlier part of this paper. The key issue is not the date of introducing the common currency but the reliability of the economic policy and the convergence program. Small steps and gradual approach are acceptable if they are based on a credible policy. To be sure, remaining outside the monetary union for a longer time (longer than other countries of the region) may entail the risk of financial speculation against the national currency. This risk cannot be fully avoided, although reliable economic policies can do a lot in this direction. It is not less risky to rush into the monetary union with a half-prepared economy (as it is the case for some candidates at present). The negative consequences of too early membership seem to be much larger than the costs of a slightly delayed accession due to enhancing competitiveness and creating healthy and sustainable structures.

**Second**: the requirement and widely shared expectation of accelerated catching-up has to be met. In this context, the substantially larger EU budget and easier access to such resources offers new opportunities. Each country had to prepare its National Development Plan, as a basis for having access to EU funds starting in 2007. The best way of allocating money (and other resources) seems to be a double and simultaneous approach. On the one hand, as a result of quick and efficient use of the resources, multiplier (spillover) effects have to be generated. It is crucial for the continental European new and future members to include into the national programming large-scale regional considerations. Excepting the Czech Republic (and of course, Malta and Cyprus), all new members have common borders with countries outside the EU and long continental borders among themselves (including the Czech Republic). Thus, common planning and implementation of large-scale infrastructural projects is one of the key requirements of sustainable regional competitiveness. It is several times demonstrated that investment decisions are, among others, substantially dependent on the quality of physical infrastructure. Therefore, sustainable and high growth in the new countries of the EU can be fostered by efficient infrastructure.

**Third**: the new member countries have generated and became an active part in the process of shifting balance of the integration. His is not only clear by looking at the map of Europe, but has been corroborated by economic trends of the last years as well. Today, the five Central European members’ exports to Germany are more than 10 per cent higher than French exports to this country, and considering final manufactured products only, this difference grows to 50 per cent. Also, clear shifts in the geographic destination of international capital flows can be observed. In 2004, foreign direct capital flows to the new members increased by almost 70 per cent, while low-growth Western Europe registered a reduction by 40 per cent. Of course, Western Europe is still getting much more capital than the new members (USD 196 and 20 bn, respectively, but the catching up process cannot be denied. The role of foreign investments in the economies of the new members is already higher than in the EU-15 (39 vs. 31 % of GDP).

Beyond the economic field, the next years are expected to generate more influence of the new members in the everyday functioning and strategic planning of the integration. The balance shifted to the new members in general, and towards small(er) countries, in particular, offers a large margin for strategic and tactical alliances with other EU countries, large and small(er) ones alike. In addition, the issue of regional cooperation has to be raised. Although, based on current experience and differences in „national” interests, it is unlikely that the new continental European members form a strong new „bloc” within he EU. However, temporary and partial alliances may emerge in specific policy areas (e.g. common foreign policy, neighborhood issues, EU budget, enlargement or some issues related to the internal market).

**Fourth**: successful incorporation into the EU structures requires a longer period following the date of official membership. One of the key elements of success is a clear integration strategy that determines the basic interests of the given country and the instruments how these interests can be implemented or, if necessary, protected. In a community of 25 (and soon more) countries, a new culture of compromises and alliances has to be learnt and practiced. With membership, the new countries got a larger maneuvering room as compared to the strict rules of the acquis as negotiated on in the pre-accession period. From within the EU, it is easier to explain and let understand specific problems of the individual countries and find special ways of solving them, without threatening the normal functioning of the integration mechanisms. Active participation in the decision-making processes may also be helpful in this respect. Further efforts are needed to achieve equal-footing in all community areas as soon as possible and, not less importantly, prevent any kind of further artificial differentiation among „old" and „new" members. One of the most useful instruments in this struggle may be the straightforward attitude of the new members in favour of a future-oriented, competitive and cohesive Europe. By representing and implementing this message, they will not only be able to contribute to the restructuring and rejuvenation of the EU. Even more importantly, in the next years, they are likely to have a more influential representation in the highest decision-making bodies of the integration and substantially shape the new face of Europe.

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